SAMPLE

南京三寶科技股份有限公司
NANJING SAMPLE TECHNOLOGY COMPANY LIMITED *

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code : 8287

Annual Report 2006

* for identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principle means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors (the "Directors") of NANJING SAMPLE TECHNOLOGY COMPANY LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM" Listing Rules) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief; (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

* *For identification purpose only*

Contents

Corporation Information

EXECUTIVE DIRECTORS

Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

NON-EXECUTIVE DIRECTORS

Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping
Mr. Zhu De Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

SUPERVISORS

Mr. Tian Tao
Mr. Sun Huai Dong
Ms. Du Jin

INDEPENDENT SUPERVISORS

Mr. Dai Jian Jun
Ms. Ma Lin Ping

QUALIFIED ACCOUNTANT

Ms. Chu Lai Kuen

COMPANY SECRETARY

Ms. Chu Lai Kuen

AUDIT COMMITTEE

Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

COMPLIANCE OFFICER

Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES

Mr. Guo Ya Jun
Ms. Chu Lai Kuen

COMPLIANCE ADVISER

Core Pacific – Yamaichi Capital Limited

LEGAL ADVISERS

Tsun & Partners Solicitors

AUDITORS

Horwath Hong Kong CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
(Nanjing Xinjiekou Branch)
95 Hanzhong Road, Nanjing City
Jiangsu Province, the PRC

HONG KONG H SHARES REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
Shop 1712–1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

INVESTOR AND MEDIA RELATIONS CONSULTANT

Porda International (Finance) PR Co., Ltd.
7/F, CMA Building, No.64 Connaught Road Central,
Hong Kong

REGISTERED OFFICE

Room 103, Building No. 1,
Ruan Jian Chuang Ye Zhong Xin,
High Technology Development Region
Qixia District, Nanjing City,
Jiangsu Province, the PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 10 Maqun Avenue, Maqun Technology Park,
Qixia District, Nanjing City, Jiangsu Province,
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

37/F, Two International Finance Centre,
8 Finance Street, Hong Kong

STOCK CODE

8287

Five Year Financial Summary

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**131,614**	88,314	77,439	61,836	62,175
Profit before taxation	**58,860**	25,056	20,616	23,610	15,315
Profit for the year	**50,593**	21,184	17,973	20,859	12,813
Minority interests	**(550)**	(82)	32	(252)	(250)
Profit attributable to equity holders of the parent	**50,043**	21,102	18,005	20,607	12,563
Earning per share — Basic (RMB cents)	**77.59**	32.72	32.20	45.79	27.92

ASSETS AND LIABILITIES

	As at 31 December				
	2006	2005	2004	2003	2002
Non-current assets	**66,656**	69,318	66,311	24,588	15,972
Current assets	**248,225**	204,215	184,759	111,455	93,574
Current liabilities	**83,893**	89,053	71,324	41,411	50,621
Net current assets	**164,332**	115,162	113,435	69,893	42,953
Equity attributable to equity holders of the parent	**229,666**	179,623	164,971	74,825	54,218
Total equity	**230,988**	184,480	169,746	79,632	58,925

Chairman's Statement

To all shareholders,

On behalf of the board of directors (the "Board") of Nanjing Sample Technology Company Limited (the "Company"), I hereby present the annual report of the Company (together with its subsidiaries referred to as the "Group") for the year ended 31 December 2006 ("period under review") for your review and consideration.

RESULTS

For the financial year of 2006, the turnover and profit for the year attributable to equity holders of the Company increased by 49.03% and 137.15% respectively, to approximately RMB131,614,000 and RMB50,043,000 (for the year ended 31 December 2005, the turnover was RMB88,314,000 and the profit for the year attributable to equity holders of the Company was RMB21,102,000). The growth was mainly attributed to the increased service income under our business model, further expansion of the proportion of software in the systems and rise in sales of major software products.

DIVIDENDS

During the period under review, the Board does not recommend the payment of a dividend for the year ended 31 December 2006.

BUSINESS AND OPERATION REVIEW

Focusing on core product innovation, traffic and logistics information services and core team building were the corporate strategic objectives for the Company in 2006. Regarding such strategic objectives, the Company attained good results in the establishment of national and industrial standards, expansion of research and application of Radio Frequency Identification ("RFID") technology, management of cash flows from major operations and optimisation of business model in 2006 under the leadership of the Board.

Core Product Technological Innovation and Active Establishment of National Standards

During the period under review, market demand for major products of the traffic monitoring and control sector, ePolice, Police Inspection and Reporting Post and Mobile ePolice, demonstrated a steady growth. Meanwhile, regarding our auxiliary products, there was a huge demand for Highway Checkpoints and security monitor and control systems, decrease in demand for construction of Command Centre and rapid expansion of the market of Highway Traffic Rule Violation Speeding Blockage System. Given such market conditions and demand, the Group focused on the development of two special products, image recording ePolice ring light and Integrated Mobile ePolice, in the traffic sector in 2006. Products with high accuracy, high definition, embedded form and high identification have become the competitive edge of the traffic monitoring and controlling products of the Company. The "Security Control System — Intelligent Police Inspection and Reporting Post System"（治安防控體系—智慧化警務站系統） launched on this basis obtained important approvals from the leaders of the Ministry of Public Security for countrywide promotion.

In 2006, the Company completed the customs logistics centralized monitoring system platform and finished testing the centralized monitoring system model in Zhangjiagang. In addition, construction of the site inter-regional common platform was also completed. Subsequent to the successful development of the Third Generation Electronic Clearance in 2005, the Group passed the provincial technological verification and inspection of the Ministry of Public Security for its Third Generation Electronic Clearance and applied for two patents, namely "Dual Band Electronic Clearance" (雙頻電子關鎖) and "Unrecoverable Cable Electronic Clearance" (不可恢復的纜線型電子關鎖), in 2006. In the meantime, the Group supervised the operation of intra-port Electronic Clearance between Xiamen Port and Export Processing Zones. Verification has been successfully obtained for the integration of Electronic Clearance into Type A checkpoints.

During the period under review, the logistics technology operations of the Group achieved breakthrough in the establishment of national standards. In March 2006, the Company and the General Customs Administration reached the "Memorandum of Understanding on Inter-regional Checkpoints and Control System"(《卡口聯網與控制系統項目合作備忘錄》), in which it was confirmed that the Company, as a national chief network integrator, would establish the industrial standards for checkpoints together with the General Customs Administration and finish the first draft of the standards by this year. Development of flexibly deployed unified checkpoint versions was completed and inter-regional integration was also finished on the 10 sites in Changjiang Delta. On 12 December 2006, led by the General Customs Administration, "The Launch Conference on Research and Development of Intelligent Containers" (啟動研發智能集裝箱工作會議) attended by competent authorities such as the General Administration of Quality Supervision, Inspection and Quarantine, the Ministry of Communications, the Ministry of Information Industry, the National Committee for Container Standardization (全國集裝箱標準化委員會) and the Office of Electronic Authentication Service of the State was convened in the office of the General Customs Administration. In the meeting, the standards for intelligent containers were recognized as the national standard and the Company was the core unit in the research of intelligent containers as well as the main drafting unit of the standards for Electronic Label. Active participation in establishing national standards has helped to strengthen the Group's competitiveness in the industry.

Focus on Modern Information Service Industries and Emphasis on Optimisation and Innovation of Business Model

In 2006, The Group actively explored the possibility of sustainable development through innovation of business model and further efforts in information service. The Group cooperated with various kinds of management consultancy firms in business model research, thereby further facilitating the transition of the Company from a network integrator to a network operator. The Group also proposed the development objectives of conducting two traditional businesses, including traffic security control operation and custom standard gate system operation, and three operating businesses, comprising container truck project, Electronic Clearance project and traffic monitoring and controlling co-establishment project. The Group studied and prepared three feasibility reports on the projects and business models and formulated an incentive policy for the projects, which laid a sound foundation for the rapid development and reproduction of the projects.

During the period under review, the first draft for systematic promotion of the co-establishment project was completed by the traffic operations of the Group was approved by the traffic management department. Concerning the logistics operation, leveraging on its advanced RFID technology, after completion of the Shanghai Yangshan Port Phase I Electronic Vehicle Licence Plate project in 2005, the Group entered into a cooperation agreement with 天津港國際物流發展有限公司 in 2006, pursuant to which, both parties intended to invest RMB4.20 million in setting up a project company to establish a general logistic information platform for Tianjin Port and introduce RFID technology into the container truck management of Tianjin Port with a view to cooperating to establish a RFID integrated checkpoint management system for Tianjin Port. In the 2006 Ceremony for Chinese Logistic Innovation and Logistic Famous Brands and Enterprises (二零零六年中國物流創新暨物流知名品牌企業頒獎峰會) organised and held by China Logistics Technology Association, the Company was also named as "Famous Logistic Brands and Enterprise in China 2006–2007 (2006–2007中國物流知名品牌企業)" for its outstanding contribution to the logistics sector.

Full Effort in Core Team Building to Build Up Good Corporate Image

During the period under review, the Group focused on building up the third echelon for the Company. The management only supervised the process while full power was granted to project managers. Under the accountability system implemented at each level, talents emerged from marketing, management, technology and engineering departments. Turnover of general team members was basically low. Therefore, good example set by the core members was brought into full play and exerted positive influence. With further development of information service projects, high standard operation talents and information service talents were gradually replenished and strengthened under the open market strategy.

The Company placed high emphasis on the transport and logistic studies carried out by the state, provincial and municipal government departments and strove to strengthen the communication and cooperation with these departments. During the period under review, the Ministry of Information Industry, the Ministry of Science and Technology, various leaders of the People's Government of Jiangsu Province and Nanjing City and diplomatic corps of the PRC paid visits to the Group from time to time for study and research. The Group gained high reputation from its good research and development environment, abundant application examples in the industry and an aggressive and proactive corporate image.

PROSPECT

Overall Development Objectives of the Company in 2007:

The Group will be faced with more opportunities and development in 2007. After nearly three years of continuous attempt, the Group was finally equipped with the basic conditions for entering the high-end market and high-end business model. Monitoring cash flows from main operations, business models of main operations and quality of major products, setting up of standardized workflow for an interconnected digital platform, perfection of project management system and improvement of allocation system will be the strategic objectives of the Company in 2007.

Continual Improvement of Incentive Mechanism, Continual Enhancement of Team Building and Attention to Staff Income

In 2007, the Group will take different measures to raise the economic standard and benefits of the staff. Meanwhile, bonus allocation proportion on the basis of cash flow and profits will be increased so that all staff can benefit from the growth of the Group. Corresponding policies will be introduced by each department to determine the responsibility and benefits of each job.

The Group will persist in internal training and external introduction as its human resource policy. The Group will focus on training its young personnel, who will be imposed with important duties and granted full power. Through job rotation and temporary posting among operation departments, high-end talents will become fully familiar with the management and operation of the Group.

Further Investment in Technology Innovation and Project Operation to Ensure Sustainable Development of the Group

In 2007, the Group will continue to further its efforts in technology innovation, which will be used not only in the continuous upgrade of our existing advantageous product, but also in the establishment of simulation environment for personnel training, video and radio frequency operation testing, as well as protection of intellectual property. In the meantime, a strategic market department will be set up in major operations such as traffic and logistics to focus on information service projects.

Optimisation of Management Standard of Our Workflow through OA to Ensure "Transparency" throughout Decision-making and Execution Processes of Projects

We will ensure "transparency" throughout the decision-making and execution processes of projects with a project-oriented approach. The human resources, legal, commercial supply chain and technology departments of the Company will ensure that the processes are transparent by establishing an OA system. In the meantime, the focus of daily operations of each functional and management department of the Company will be changed to project management.

Through operation of information service projects, cooperation with similar international enterprises in terms of market resources and technology and establishment of an interconnected digital network operation platform, the Group is confident that Sample Technology will become the first high-growth and high-profit leading enterprise focused on information services and industrial application of RFID in sectors of modern services, modern logistics and intelligent transport in the PRC.

On behalf of Sample Technology, I would like to extend our gratitude to our suppliers, clients and shareholders for their support and faith, as well as the contribution from every staff, which enabled the Group to achieve the impressive results.

By Order of the Board
Sha Min
Chairman

Nanjing, the PRC
24 April 2007

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

The audited consolidated turnover of the Group was approximately RMB131,614,000 for the year ended 31 December 2006, representing an increase of approximately 49.03% as compared to the corresponding period of last year. The Company continued to achieve high volume of sales of Intelligence Police Inspection System from public infrastructure sector and Customs Logistics Monitoring System from provincial Customs. Besides, the Company changed in its sales mix by increasing sales of software products resulting in a sharp increase in sales of security system software from approximately RMB9,214,000 in 2005 to RMB32,519,000 for the year, representing an increase of 252.93%.

Gross Profit

The gross profit margin of the Group for the year ended 31 December 2006 was approximately 52.65%, an increase of 6.98% compared with 2005. The increase in gross profit margin was mainly attributable from the increasing sales of security system software.

Other Income

The Group recorded an slight increase of 8.32% in other income from approximately RMB10,052,000 in 2005 to approximately RMB10,888,000 for the year. Although the Company no longer achieved last year's sales of other system software amounting to approximately RMB5,250,000 in 2006, it was compensated by the increase in both PRC value added tax refunded from approximately RMB2,902,000 in 2005 to approximately RMB7,527,000 for the year and interest income from approximately RMB1,156,000 in 2005 to approximately RMB2,249,000 for the year.

Distribution Costs

There was a slight decrease in distribution costs from approximately RMB7,603,000 in 2005 to approximately RMB7,571,000 for the year, representing a drop of only 0.42%. The Company successfully changed its sales mix to increasing portion of sales of security system software as most of the work done can be carried out and completed in house, hence resulting in cost saving particularly in traveling expenses.

Administrative Expenses

The administrative expenses of the Group experienced a significant decrease of 19.36% from approximately RMB15,207,000 in 2005 to approximately RMB12,263,000 for the year. Following the disposal of the Company's subsidiary engaged in provision of intelligent building service, the Company can well reallocate its research and development resources to traffic and logistics sector. After the receipt of government grants, the research and development expenses decreased from approximately RMB3,114,000 in 2005 to approximately RMB1,809,000 for the year. Besides, the depreciation charge for the period decreased from approximately RMB5,195,000 in 2005 to approximately RMB3,521,000 for the year.

Net profit

The profit attributable to equity holders of the parent increased sharply from approximately RMB21,102,000 in 2005 to approximately RMB50,043,000 for the year, representing an increase of 137.15% as compared to corresponding period of last year.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, equity attributable to equity holders of the parent was approximately RMB229,666,000. The current assets were approximately RMB248,225,000, comprising cash and bank deposits of approximately RMB121,013,000. The Group had no non-current liabilities for the year. Current liabilities were approximately RMB83,893,000, mainly including trade and other payables, tax liabilities, construction costs payables and short-term bank loans. The net assets per share of the Group was approximately RMB3.58. As at 31 December 2006, the short term borrowings of the Group were RMB46,000,000.

PLEDGE OF ASSETS

As at 31 December 2006, the Group has no assets under collateral.

GEARING RATIO

As at 31 December 2006, the gearing ratio (calculated as bank borrowings and long-term borrowings divided by total assets) of the Group was 14.61%.

FOREIGN CURRENCY EXPOSURE

Since the Group mainly conducts its business in the PRC and most of the sales and purchase of the Group were denominated in RMB, the Group's operating results were not exposed to any foreign currency risk.

SUBSTANTIAL ACQUISITION/DISPOSAL AND SIGNIFICANT INVESTMENT

Considering the keen competition in the intelligent building sector and the decrease in profit margin gained from the intelligent building sector contracts. The Group has disposed of a 80% equity interest in its subsidiary, Nanjing Sample Information System Engineering Company Limited during the year. The disposal brought along with a gain of approximately RMB988,000 to the Group.

CAPITAL COMMITMENT

As at 31 December 2006, the Group had no significant capital commitment.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group had no significant contingent liabilities.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the total employees' remuneration of the Group was approximately RMB7,723,000 and the number of employees of the Group was 241. The Group remunerated its staff based on the individual's performance, profile and experience and with reference to the market price. The Group would grant discretionary bonus to the staff with reference to the individual's performance as recognition of their contribution. Other benefits included the contribution to the retirement scheme, medical scheme, unemployment insurance and housing allowance.

BUSINESS REVIEW

Business Expansion

Traffic Sector

In 2006, market demand for major products of the traffic sector, ePolice, Police Inspection and Reporting Post and Mobile ePolice, demonstrated a steady growth. Meanwhile, regarding our auxiliary products, there was a huge demand for Highway Checkpoints and security monitor and control systems, decrease in demand for construction of Command Centre and rapid expansion of the demand for Highway Traffic Rule Violation Speeding Blockage System. To cope with the above industry development, the Group inclined to further fortify those mature markets with huge demand in transport business and fast repayment cycle such as Jiangsu, Shandong and Fujian. We also aim to penetrate into other peripheral areas of eastern part of China including An Hui and Jiangxi, instead of adopting aggressive marketing policies implemented during the past years. With this strategy in place, other market players had no choice but forced to change their strategies to focus on other remote areas from the Company.

During the period under review, the Group's premium product Intelligence Police Inspection System is primarily characterized by its economic and social benefits widely recognized by the public transport police authorities, which helped the Group to successfully acquire the largest market share amongst the country's public infrastructure sector. This is clearly evidenced by the high accreditation awarded to the service quality and operating efficiency of the System from the local public transport authorities such as Shandong Zaozhuang (棗莊), Shandong Laizhou (萊州), Hunan Zhuzhou, Fujian Xiamen and Anhui Anqin.

Logistics Sector

During the period under review, the Customs Logistics Monitoring System of the Group was extensively used in more than 20 Customs throughout the country, nearly 80 on-spot Customs, some 30 state-level export processing zones as well as customs bonded logistics zones. Following the successfully expansion of Port-Bond Zone Collaboration Projects based on logistics monitoring platform from Dalian to other six Port-Bond Zones including Xiamen and Tianjin. The Group supervised the operation of intra-port Electronic Clearance between Xiamen Port and Export Processing Zones. Verification has been successfully obtained for the integration of Electronic Clearance into Type A checkpoints. In addition, the Group actively explored the application of RFID for the operating model of terminal port container truck and conducted an in-depth investigation on the feasible mechanism of terminal port container trucks operations and the work flow of port operations. Through such ways, we believe Sample has already paved the grounds for future fast growth of other ports with similar operations.

Management Discussion and Analysis

Research and Development

Traffic Sector

In 2006, the Group accomplished its research and development on Off-site Violation Penalty System Platform, Police Inspection and Reporting Post, Product Software Application and ePolice Centre Signal Processing System and completed 127 projects of technology upgrade for aged products clearance system. By doing so, the research and development process about products integration was further strengthened after the formation of resources management platform. With the aims of product management centralization, technology support as well as the data acquired during the research and development activities can also be shared through this platform.

Logistics sector

In 2006, a common platform for logistic operations was set up by the Group, which comprises Central Monitoring System and Site Monitoring System. For Central Monitoring System, it complied with the first phase development requirements of the General Customs Administration and filed to the code management system of information center under the General Customs Administration as a key interface for gate system. In the meantime, the Group is now undertaking its marketing activities on technology interchange of V2.0 in Pearl River Delta, and has also completed the overall design as well as research and development on modules. Trial runs are proposed in the Longtang and Taicang Projects.

In March 2006, the Group and the General Customs Administration reached the "Memorandum of Understanding on Inter-regional Checkpoints and Control System " (《卡口聯網與控制系統項目合作備忘錄》), in which it was confirmed that the Group, as a chief network integrator, would establish the industrial standards for checkpoints together with the General Customs Administration and finish the first draft of the standards by this year. The industrial standards have been established. Development of flexibly deployed unified checkpoint versions was completed and inter-regional integration was also finished on the 10 sites in Changjiang Delta.

BUSINESS PROSPECTS

Research and Development

Traffic Sector

In this year, the Group will expedite its process of products commercialization and put more efforts on information standardization. Committed to solve the issue of technological reliance on our research and development team effectively, we strive to establish an effective and efficient training system and provide more and more training programs for engineers and after-sales services staff. Meanwhile, the Group will continue to focus on building an efficient production process so as to achieve feasible and acceptable working procedures for our research and development technicians. Apart from these, we intend to set up a team of research and development for our core technologies and a testing platform for the Intelligent Transportation Products. Focusing on developing Intelligent Vehicle Reader Machine and Embedded Intelligent Video Grabber, the Group believes its Intelligent Vehicle Reader Machine will be able to provide integrated RFID information and video collection functions. The Embedded System will also realize real-time video collection, processing as well as remote transmission with the capability of received sequence images expansion.

Management Discussion and Analysis

Logistics Sector

In 2007, the Group will primarily focus on three key areas, namely gate system minimization, embedded system for container identification, site integration system and gate control and monitoring system platform. To this end, we will conduct research and development on the application of IC cards and Electronic Vehicle Plates in the front gate collection machines as well as the monitoring functions of LED equipment. In addition, we will also collect useful information about weighting pounds to achieve our targets of system failure inspection and automatic adjustment and testing functions being installed on all mounting equipment. At the same time, self-inspection and reporting functions will be added to the gate work monitoring system with the support of remote upgrade and remote control capabilities. We are confident that the above strategies will help to form an unmatched automatic gate system model and lead to a successful development of RFID accessories.

By developing analog and digital video collection identifications for embedded container identification system, the Group is able to provide products having the distinctive functions like container identification systems adjustment and testing, photos identification as well as analog status reporting. Therefore, we are expected to deliver multiple digital access and dissemination of information on the site integration system via the platform by maintaining our security management and internet infrastructures. As such, we will be able to produce reusable components for Customs business and multiple communications sharing solutions to different enterprises.

Gate control monitoring center will provide separate system remote and customs operations information monitoring services, with the focus of achieving balanced flows and trunking functions. Coupled with the objectives of enhancing our communications stability and information upgrade, we endeavor to diversify and expand further the functionality of the monitoring center, and to crystallize remote system upgrading and platform information enquiry (remote monitoring system).

Furthermore, Electronic Clearance products will further enhance the reading rate of RFID powerless card, the one-off success rate of the power communication portion of RFID and safety of Electronic Clearance. Emphasis will be placed on outlook design of the products to create a sense of fashion.

Sales and Marketing

Traffic Sector

Based on the demand and plans of the Ministry of Public Security for the three-year development of the general and traffic police of each city, the Group estimated that the market of traffic monitoring and controlling sector will exceed RMB30 billion. Market share of the Company's major products mainly concentrate in security monitoring and controlling checkpoint system, Police Inspection and Reporting Post, ePolice, Mobile ePolice, establishment of public security information platform and off-site violation penalty system. In 2007, the Group will continue to strengthen its existing established market in Jiangsu, Shandong and Fujian and expand into peripheral provinces such as Anhui and Jiangxi. Apart from video monitoring and controlling products, the Group will inject capital into the further study of product innovation of RFID technology in traffic monitoring and controlling sectors. The Group intends to put such monitoring and controlling products in trial launch in Nanjing City in 2007. According to the strategic planning of the Company, the Group will explore ways to set up a new business operation model in the traffic monitoring and controlling sector with a view to obtaining steady cash flow and stable markets to sustain the competitiveness of the traffic monitoring and controlling sector through high quality information service.

Logistics Sector

As a chief network integrator of custom gate systems, at the request of the General Administration of Customs, the Group will ensure completion of the inter-regional integration of custom gates countrywide and the establishment of the network operation mechanism in 2007. Apart from establishing standards for the gate system jointly with the General Customs Administration, the Group will also set up a gate simulation, test and training centre in its own industrial park with the General Customs Administration in order to materialise such task, further expand its main operations into ports, terminals and sites, centralise its resources to quickly launch the port integrated gate logistics information service operation project, strengthen the relationship between port trade unions and port trailer associations and complete project cooperation agreements with certain ports. The Company will actively explore the modes of application of RFID products for customs logistics monitoring and third-party logistics supply chain and further develop Electronic Clearance products. The Group will set up a follow-up service mechanism, pursuant to which the QA will provide follow-up services to the projects and after-sales services. A regular rotation system will be established to ensure normal operation of the system. The Group will provide solutions for frequently asked enquiries, relevant software for downloading and system upgrade via website.

Review of Business Objectives

USE OF PROCEEDS

The Company obtained proceeds of approximately RMB72,141,000 from the placing ("Placing") of new H shares (net of the related expenses) in June 2004. The use of proceeds of approximately RMB40,905,000 for the year ended 31 December 2006 was set out below.

The Group placed its H share at a price of HK$4.15 per H share. According to the Company's prospectus dated 2 June 2004 ("Prospectus"), the additional net proceeds from the placing will be applied by the Group in the same way and proportion as stated in the Prospectus. The breakdown of the use of proceeds by the Group and the estimated costs is set out below:

	Approximate amount used as at 31 December 2006 (HK$ million)	Estimated costs as at 31 December 2006 (HK$ million)
Research and development and upgrading of system solutions		
— Traffic monitoring and control sector	7.6	9.1
— Customs logistics monitoring sector	2.9	2.3
Construction of information platform		
— Traffic monitoring and control sector	4.3	4.8
— Customs logistics monitoring sector	1.5	1.2
Launching of new system solutions		
— Traffic monitoring and control sector	2.0	2.9
— Customs logistics monitoring sector	1.3	0.7
Purchase of additional equipment and/or facilities for commercialization of system solutions	9.0	9.0
Expansion of sales and distribution network	5.9	6.0
Sub-total	34.5	36.0
Working capital	6.0	5.5
Total	40.5	41.5

Review of Business Objectives

Set out below is the comparison between the actual business progress for the year ended 31 December 2006 and the business objectives stated in the Prospectus.

PRODUCT DEVELOPMENT AND UPGRADE

	Business objectives as stated in the Prospectus	Actual progress during the period under review
Traffic monitoring and control sector	Integrated Digital ePolice (using CCD chips and lens developed by the Company, with high identification rate)	The development of the product was completed and it has been launched in the market for sale
	Product: Taxi Safety Protection System	The research and development plan of this project was suspended due to market factors
	Automatic Vehicle Licence Plate Identification Digital ePolice (an upgraded version of Integrated Digital ePolice capable of identifying registration numbers on vehicle licence plates automatically)	The development of the product was completed and it has been launched in the market for sale
	Product: RFID Vehicles In-and-out Management System	The product was at the stage of research and development and testing
Customs logistics monitoring sector	Customs Passage Monitoring and Control Centre System (an integrated system solution that enable automation of monitoring and control over the passages of customs)	The development of the system was completed and it has been launched for sale
	Export Processing Enterprise Network Monitoring System (an integrated system solution that enables (i) supervision of customs application programs, (ii) monitoring and control of export of equipment, facilities and processed products from enterprises in the EPZs, and (iii) data sharing through an intranet)	The Group has completed the development of customs transfer monitoring intraregional system between ports and processing zones, and will choose network monitoring solutions of enterprises in the EPZs for research and development according to customer demands and regulatory requirements

Review of Business Objectives

SALES AND MARKETING

	Business objectives as stated in the Prospectus	Actual progress during the period under review
Traffic monitoring and control sector	Target on 110 public security command centres all over the country, promote the Group's products according to the requirements of city security system	The "Police Inspection" system was promoted nationwide as our key product of urban security control system
	Promote the "Embedded Highway Checkpoint Inspection System" and the "Embedded ePolice" to public security authorities across the country	These products were recommended nationwide as our key products
Customs logistics monitoring sector	Hold seminars/ briefing sessions on the Group's products for the customs of major cities of the country	On-site project coordination meetings has been convened at the General Customs Administration and in Dalian
	Hold seminars with the Customs to introduce the Group's customs logistics monitoring product/ system solutions to other customs authorities	Our plan to establish the "Customs Intelligent Checkpoint Standard Testing Base" in our zones was approved by the General Customs Administration

ALLOCATION OF HUMAN RESOURCES

	Expected number of employees to be employed by the Group as at 31 December 2006	Actual number of employees employed by the Group as at 31 December 2006
Management and general administration	50	65
Research and development	85	58
Sales and marketing	52	25
Technical support service	88	93
Total	275	241

DIRECTORS

Mr. Sha Min (沙敏), aged 42, has received postgraduate education. He is an executive Director and the chairman of the Company. He is responsible for devising the Group's overall strategies and policies. Mr. Sha obtained a master degree in engineering from Southeast University in 1990. Mr. Sha was firstly appointed as a Director in December 1999. He is directly interested in 0.7% of the registered capital of the Company immediately after the Placing. Mr. Sha was conferred the titles of Jiangsu Province Outstanding Yong Entrepreneur and Nanjing Ten Outstanding Young Entrepreneur and Nanjing Ten Outstanding Young Entrepreneur in 2000 and 2001 respectively. Mr. Sha was elected as a committee member of the Chinese People's Political Consultative Conference of the Nanjing Committee in January 2003.

Mr. Chang Yong (常勇), aged 40, has received postgraduate education. He has been the chief executive officer of the Company since December 2000. He is responsible for implementing the Group's strategies and business plans. He obtained a master degree in computer application studies from Harbin Polytechnical University in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from 1990 to 1992. Mr. Chang became the vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. He was appointed as an executive director and the general manager of Sample System in December 1997. Mr. Chang was elected as a member of the Chinese People's Political Consultative Committee of Xuanwu District in Nanjing City in 1998. Mr. Chang was firstly appointed as a Director in December 1997.

Mr. Guo Ya Jun (郭亞軍), aged 47, has received university education. He is an executive Director, the vice chairman and the financial controller of the Company. He is responsible for supervising the Company's accounting department and financial affairs. He graduated from the Faculty of Agricultural Economy at Anhui Agricultural College in August 1982 with a bachelor degree in agricultural economics. Mr. Guo worked for the Finance Bureau of Lingbi County in Anhui Province from 1982 to 1992. He worked for the Nanjing Jintai Building Materials Development Company between 1993 and 1996. Mr. Guo was appointed as the finance manager of Sample Group and Sample System in October 1996 and became the Company's director of finance and vice chairman in December 2000. He is currently mainly responsible for the financial and administrative management of the Group. He was firstly appointed as a Director in December 1999.

NON-EXECUTIVE DIRECTORS

Mr. Zhao Jing Cheng (趙竟成), aged 61, is a non-executive Director. He graduated from the Faculty of Automatic Control of Southeast University in 1969. Mr. Zhao completed the postgraduate study in Nanjing University of Science and Technology in 1998, and obtained an MBA degree from Macau Science and Technology University in January 2002. He joined Huadong Electronics Factory in August 1970 and is now the president and chairman of the board of, Nanjing Huadong Electronics Group Company Limited. Mr. Zhao was firstly appointed as a Director in July 2000.

Mr. Zhang Yin Qian (張銀千), aged 51, is a non-executive Director. He graduated from Wuxi School of Wireless Electronics Industry in July 1978. Mr. Zhang joined Huadong Electronics Factory in August 1978 and served as the Vice chairman of the board of Nanjing Huadong Electronics Information & Technology Company Limited. Mr. Zhang was firstly appointed as a Director in December 2000.

Mr. Guo Shi Ping (郭試平), aged 54, is a non-executive Director. He is a senior economist and has received tertiary education. Mr. Guo joined Nanjing Public Transport Company ( ) in February 1970 and held various positions such as planner, deputy head and head of the industrial relation division. He was the manager of a company under Nanjing Public Transport Company and deputy general manager of Nanjng Zhongbei (Group) Company Limited (南京公交總公司) and manager for Zhongbei Bus Company (南京中北（集團）股份有限公司). He is currently the deputy chairman and general manager of Nanjing Zhongbei (Group) Company Limited

Biographical Details of Directors, Supervisors and Senior Management

Mr. Zhu De Xiang (朱德祥), aged 61, is a non-executive Director. He was a political instructor, head of the section and political commissioner of a division of the People's Liberation Army of the Nanjing Military Area Command between September 1965 and August 1991. Mr. Zhu joined Nanjing Zhongbei in August 1991 and is currently the secretary of the communist party of Nanjing Zhongbei. Mr. Zhu firstly was appointed as a Director in December 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan (張展), aged 39, has received university education. He is an independent non-executive Director. He graduated from the Faculty of Computer Science at Wuhan University and obtained a bachelor degree in 1989. Mr. Zhang is currently the general manager of the Beijing investment banking division of China Construction Bank Securities Investment Company Limited. Mr. Zhang was firstly appointed as a Director in December 1997.

Mr. Wang Wei (王煒), aged 47, is an independent non-executive Director. He graduated from the Department of Civil Engineering of the Southeast University with a bachelor degree in July 1982 and a master degree in February 1985. He then taught in the Transport Department of the Southeast University. Mr. Wang obtained a doctorate degree from Southeast University in structural engineering in May 1990. Mr. Wang has been the Head of the City Road Traffic Management (Clear Way Project) National professional Group of the Department of Public Security and Department of Construction since April 2000. Mr. Wang was appointed as an independent non-executive Director in November 2001.

Mr. Lau Shek Yau John (劉石佑), aged 59, is an independent non-executive Director. He was previously the managing director of United Distribution Services (Far East) Limited (a member of the Dodwell Group of Companies). Mr. Lau is active in cargo business and experienced in international trading. In 1985, he established United Distribution Services Far East Limited which was subsequently sold. In 1990, Mr. Lau established Wide Shine Terminals Limited, which was subsequently sold. Mr. Lau is the managing director of Cargo Services Far East Limited and Far East Cargo Line which have overseas offices in the United Kingdom, Singapore, and the PRC. Mr. Lau is the director of Xinhaihua Enterprise Limited and the chairman of Nanjing Xinhaihua Industry Company Limited. Mr. Lau was appointed as a committee member of the Chinese People's Political Consultative Committee of the Nanjing Committee in 2003. Mr. Lau was appointed as an independent non-executive Director in August 2003.

SUPERVISORS

Mr. Tian Tao (田濤), aged 59, has received university education. He is a supervisor of the Company and chairman of the supervisory board of the Company. He graduated from the Department of Journalism with a bachelor degree in Journalism in Fudan University in January 1982. Mr. Tian was the director of Nanjing People's Broadcasting Station between November 1983 and August 1984. During the period from August 1984 to April 1994, Mr. Tian acted as the head of the news department of Nanjing People's Broadcasting Station and was the Secretary of the party committee. Mr. Tian was appointed as the vice minister of the broadcasting department of a Nanjing Municipal Commission of the Communist Party Committee since 1994. Mr. Tian has been the president and director of Nanjing Press Group and the secretary of the party committee since December 2002. He was firstly appointed as a Supervisor in July 2000.

Mr. Sun Huai Dong (孫懷東), aged 39, has received university education. He is a Supervisor. He graduated from the Department of Radio Engineering of the Southeast University with a bachelor degree in July 1990. He worked for the Stateowned Factory No. 772 from 1990 to 1992. Mr. Sun was appointed manager of the sales department and general manager of Sample Industry during the period from 1993 to 2002. Mr. Sun has been the vice deputy general manager of Jiangsu Hai Te Man New Material Co., Ltd. since 2002. He was firstly appointed as a Supervisor in December 1999.

Ms. Du Jin (杜瑾), aged 43, has received university education. She is a Supervisor elected by the staff members of the Company. She obtained an MBA degree from Asia International Open University (Macau) in 2000. She formerly worked for Jiangsu Province Telecommunication Equipment Factory from December 1985 to August 1993 and Nabisco Food (Suzhou) Company Limited Nanjing Branch from July 1996 to July 1998. She joined the Company in August 1998, and is now the general manager of the Company's customs affair department and the senior management of the Company. She was firstly appointed as a Supervisor in December 1999.

INDEPENDENT SUPERVISORS

Mr. Dai Jian Jun (**戴建軍**), aged 36, as a Supervisor. He was educated in Jiangsu Public Security Professional School from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a Supervisor in August 2003.

Ms. Ma Lin Ping (馬林萍), aged 45, is a Supervisor. She graduated from the Correspondence School of the Communist Party of the PRC in 1998. She was qualified as an accountant in PRC in 1994. Ms. Ma was an accountant of Nanjing Shi Cheng Certified Public Accountant from November 1995 to September 1999. She was qualified as a registered tax consultant and a registered asset valuer in PRC in 1999 and 2000 respectively. Ms. Ma was the director of Nanjing Shi Cheng Tax Consultants since March 2000. She was appointed as a Supervisor in August 2003.

SENIOR MANAGEMENT

Mr. Fu Yu Qing (富煜清), aged 68, has received postgraduate education. He is the Company's chief technical officer. He graduated from Southeast University in August 1961 and obtained a doctorate degree in Philosophy from the University of Laval in 1984. Mr. Fu was an instructor of the Faculty of Wireless Communications of Southeast University from September 1961 to December 1979. He was an associate professor, professor, director of teaching group, director of laboratory and general engineer of the research institute of Southeast University from January 1984 to July 1998. Mr. Fu joined the Company and was appointed as the chief technical officer of the Company in December 2000.

Mr. Chen Rui Cai (陳瑞才**),** aged 44, received university education. He is the general manager of the Company's traffic department. He graduated from Chang'an University (Xi'an Highway College) in July 1987. He joined the research institute under the Nanjing Police's traffic control research department in August 1987, serving as researcher and subsequently deputy president of the research institute. Mr. Chen joined the Company in June 2003 and served as the general manager of the Company's traffic department.

Mr. Zhu Xiang (朱翔**),** aged 30, received postgraduate education. He is the secretary of the Board of the Directors and general manager of the investment centre. He graduated from Xi'an Jiaotong University in July 2000 and obtained a MBA degree from Nanjing University in June 2006. He joined the securities department of Hainan Airlines Company Limited (海南航空股份有限公司) in July 2000, serving as the assistant to secretary of the board of directors. He joined the Company in March 2003, serving as the senior manager of the Company's investment department, general manager of the investment centre and secretary to the Board of Directors.

Ms. Chu Lai Kuen (朱麗娟**),** aged 38, Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree in Accountancy and is a fellow member of the Association of Chartered Certified Accountants. Ms. Chu has over 12 years of experience in auditing and financial management. At present, Ms. Chu is the company secretary, qualified accountant and one of the authorized representatives of the Company. She is responsible for the financial and accounting management and secretarial affairs of the Company.

Report of Directors

The Board presents their annual report and audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is a major developer and provider of video security system solutions in the PRC targeting on government authorities. Its system solutions are currently designated for use in (i) traffic monitoring and control sector and (ii) customs logistics monitoring sector in the PRC.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Sales to the Group's five largest customers accounted for 31.8% (2005: 17.8%) of the total sales for the year and sales to the largest customer included therein amounted to 7.8% (2005: 5.1%).

To the knowledge of the Directors, none of the Directors, their associates or any management shareholders who own more than 5% of the Company's issued share capital had material interests in the Group's five largest customers.

Five Largest Suppliers

Purchase from the Group's five largest suppliers accounted for 23.6% (2005: 20.7%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 8.0% (2005: 5.7%).

To the knowledge of the Directors, none of the Directors, their associates or any management shareholder who own more than 5% of the Company's issued share capital had material interests in the Group's five largest suppliers.

RESULTS AND DIVIDENDS

The results and financial position of the Group for the year ended 31 December 2006 are set out on pages 33 to 68 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2006.

RESERVES

Details of the movements of reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Group's reserves available for distribution amounted to RMB94,924,000.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the note 26 to the financial statements.

Pursuant to the special general meeting of the Company held on 21 August 2006, it is resolved that each of the domestic shares ("Domestic Shares") and H shares ("H Shares") of the Company of RMB1.00 each to be subdivided respectively into ten subdivided domestic shares and subdivided H shares of RMB0.10 each. However, the share subdivision has not yet been approved by the China Securities Regulatory Commission.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in the note 15 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors for the year and up to the date of this report are as follows:

Executive Directors
Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

Non-executive Directors
Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping
Mr. Zhu De Xiang

Independent Non-executive Directors
Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

Supervisors
Mr. Tian Tao
Mr. Sun Huai Dong
Ms. Du Jin
Mr. Dai Jian Jun
Ms. Ma Lin Ping

DIRECTORS AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts will expire on 31 December 2006 and shall renew for another term of three years subject to the approval at the annual general meeting of the Company.

Save as the disclosed above, no Directors and Supervisors for re-election at the forthcoming annual general meeting has a service contract with the Company's subsidiaries which is not terminable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

Details of Directors' remuneration and the highest paid individuals are set out in the note 10 and 11 to the financial statements.

INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICERS

Save as disclosed below, as at 31 December 2006, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.47 of the GEM Listing Rules.

Long positions in Shares

Name of Directors	Number of Shares	Nature	Approximate Percentage of the Registered Capital of the Company (%)
Sha Min	450,000	Beneficial owner	0.7

Note: As Du Yu (杜予) is the spouse of Sha Min, Du Yu (杜予) is deemed to be interested in 450,000 domestic shares held by Sha Min pursuant to Part XV of the SFO.

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2006, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO. Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited (“Sample Group”) *(Note 1)*	19,650,000	Beneficial and corporate	30.47
Jiang Su Century Golden Ox Technology & Industry & Trade Corporaton (“Century Golden Ox”)	12,000,000	Beneficial	18.60
Nanjing Huadong Electronics Information & Technology Company Limited (“Huadong Technology”)	12,000,000	Beneficial	18.60
Nanjing Huadong Electronics Group Company Limited (“Huadong Electronics”) *(Note 2)*	12,000,000	Corporate	18.60

Notes:

1. Sample Group directly holds 18,000,000 domestic shares and is also interested in 95.00% of the registered capital of Nanjing Sample Technology Commerce City Company Limited（南京三寶技商域有限公司）(“Sample Commerce City”), which in turn is directly interested in 1,650,000 Domestic Shares. Pursuant to section 316 of the SFO, Sample Group is deemed to be interested in the 1,650,000 Domestic Shares held by Sample Commerce City.

2. Pursuant to section 316 of SFO, Huadong Electronics is deemed to be interested in 12,000,000 Domestic Shares held by Huadong Technology, as Huadong Electronics is interested in 45.20% of registered capital of Huadong Technology.

   Pursuant to an agreement dated 29 December 2006, Huadong Electronics agreed to dispose of its entire shareholding of 12,000,000 domestic shares of the Company to an independent third parties (the “Disposal”). However, the completion of the Disposal was pending for the approval by the Ministry of Commerce of the People’s Republic of China.

DIRECTORS’ AND SUPERVISORS’ INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2006, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2006, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the period.

SHARE OPTION SCHEME

The Company conditionally approved a share option scheme (“Share Option Scheme”) on 24 April 2004. The principal terms and conditions of the share option scheme are set out in the section “Summary of the terms of Share Option Scheme” in Appendix VII of the Prospectus. As at 31 December 2006, none of the options is granted under the Share Option Scheme.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

None of the Directors, management shareholders or substantial shareholders or any of their respective associates (as defined in the GEM Listing Rules) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has other conflicts of interests with the Group.

Report of Directors

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the independent non-executive Directors an annual confirmation of his independence. The Company considered all the independent non-executive Directors are independent.

COMPLIANCE ADVISER'S INTEREST

As at 31 December 2006, according to the notification of the compliance adviser of the Company, Core Pacific - Yamaichi Capital Limited ("CPY Capital"), none of CPY Capital, its directors, employees or associates (as defined in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or any of its subsidiaries, or had the right to subscribe or nominate the others to subscribe the share capital of the Company or any of its subsidiaries.

According to the agreement entered into by the Company and CPY Capital on 2 June 2004, CPY Capital acts as the compliance adviser of the Company for the period from 9 June 2004 to 31 December 2006 or until the agreement is terminated pursuant to the terms and conditions of the agreement and receives an agreed amount of fees for the services to be rendered in respect thereof.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to supervise the financial reporting process and internal control of the Company.

The audit committee comprises three independent non-executive Directors, namely Mr. Zhang Zhan (the chairman of the audit committee), Mr. Wang Wei and Mr. Lau Shek Yau John. The audit committee of the Company has reviewed the audited results of the Group for the period under review and has provided advice and comments thereon.

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2006, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2006, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or a Supervisor had a direct and indirect material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

(a) On 14 July 2006, the Company entered into a share transfer agreement ("Share Transfer Agreement") with an independent third party to dispose of its 80% equity interest in Nanjing Sample Information System Engineering Company Limited ("Sample Information") for a total consideration of RMB17,600,000. Sample Information, before the completion of the Share Transfer Agreement, was owned as to 20% by Nanjing Sample Technology Group Company Limited ("Sample Group"), a controlling shareholder and a substantial shareholder of the Company.

(b) On 9 April 2007, the Company's subsidiary, Nanjing Sample RFID Technology Company Limited ("Sample RFID") entered into an assignment agreement with Sample Group in which Sample RFID agreed to acquire all assets necessary for the operation of a RFID technology research and exhibition centre owned by Sample Group at a cash consideration of RMB3,250,000. The centre was originally jointly established and operated by Sample Group and an independent third party ("Independent Third Party"). The Company is advised by Sample Group that Sample Group has terminated the joint operation with Independent Third Party with effect from 1 January 2007.

Upon signing the assignment agreement, Sample FRID also entered into a co-operation agreement with the Independent Third Party for the joint operation of this centre.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provision set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the year ended 31 December 2006.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

On behalf of the Board
Sha Min
Chairman

Nanjing, the PRC
24 April 2007

Corporate Governance Report

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions as set out in the Code on Corporate Governance Practices (the "Code"). Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

The Company has complied with all the code provisions on Corporate Governance Practice as set out in the GEM Listing Rules to establish a formal and transparent procedures to protect and maximize the interests of shareholders during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2006.

BOARD OF DIRECTORS AND BOARD MEETING

The Directors for the year are listed as follows:

Executive Directors
Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

Non-executive Directors
Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping
Mr. Zhu De Xiang

Independent Non-executive Directors

Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

Each of the Directors has entered into a service contract with the Company. The service contracts will expire on 31 December 2006 and shall renew for another terms of three years subject to the approval at the forthcoming annual general meeting of the Company.

Corporate Governance Report

The Board of Directors, which currently comprises 10 directors, is entrusted with the overall responsibility for directing and supervising the Company's business and affairs. During the year, Mr. Sha Min and Mr. Chang Yong were appointed as the Chairman and the Chief Executive Officer of the Company. The board of Directors held a full board meeting each quarter.

Apart from its statutory responsibilities, the Board of Directors approves the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensure implementation of appropriate systems to manage these risks.

The attendance of individual Directors at the board meetings held during the year is listed as follows:

	Attendance
Executive Directors	
Mr. Sha Min *(Chairman)*	6/6
Mr. Chang Yong	6/6
Mr. Guo Ya Jun	6/6
Non-executive Directors	
Mr. Zhao Jing Cheng	5/6
Mr. Zhang Yin Qian	5/6
Mr. Guo Shi Ping	4/6
Mr. Zhu De Xiang	5/6
Independent Non-executive Directors	
Mr. Zhang Zhan	6/6
Mr. Wang Wei	6/6
Mr. Lau Shek Yau John	6/6

Apart from the above regular board meetings held during the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive detailed agenda for decision prior to each board meeting.

REMUNERATION COMMITTEE

In accordance with Code provision B1.1 to B1.5 of the Corporate Governance Practices, the appointment and the terms of reference of the Company's remuneration committee have been approved in the board meeting on 10 November 2005. Members of the remuneration committee, with the majority consisting of independent non-executive Directors, comprise:

Mr. Guo Ya Jun *(the Chairman of the remuneration committee)*
Mr. Zhang Zhan
Mr. Wang Wei

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

Corporate Governance Report

A meeting was held during the year by the remuneration committee to review the remuneration packages of executive Directors and the director's fees of the independent non-executive Directors. All members of the remuneration committee, namely Mr. Guo Ya Jun, Mr. Zhang Zhan and Mr. Wang Wei attended the said meeting. The remuneration committee plans to meet at least once a year in the coming year.

NOMINATION OF DIRECTORS

The Company's nomination committee was approved and established in the board meeting held on 10 November 2005. Members of the nomination committee comprise:

Mr. Sha Min *(the Chairman of the nomination committee)*
Mr. Zhang Zhan
Mr. Wang Wei

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meeting in relation to appointment and re-appointment of Directors of the Company.

A meeting was held during the year by the nomination committee. All members of the nomination committee, namely Mr. Sha Min, Mr. Zhang Zhan and Mr. Wang Wei attended the said meeting.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year, the auditors' remuneration regarding the annual audit of the Group amounted to RMB480,000.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, interim reports and quarterly reports to Directors.

The audit committee comprises three independent non-executive Directors, namely Mr. Zhang Zhan (Chairman of the audit committee), Mr. Wang Wei and Mr. Lau Shek Yau John.

The audit committee held 4 meetings during the year. Details of the attendance of the audit committee meetings are as follows:

	Attendance
Members of the Audit committee	
Mr. Zhang Zhan	4/4
Mr. Wang Wei	4/4
Mr. Lau Shek Yau John	4/4

During the year, the Group's unaudited quarterly and interim results for the year 2006 and annual audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Group for the year ended 31 December 2006 have been reviewed by the audit committee.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the reporting responsibilities of the external auditors to the shareholders are set out on page 31 and 32.

INTERNAL CONTROLS

During the year, the board convened meetings periodically to discuss financial, operational and risk management control. The board and the audit committee have conducted several reviews on its internal control system and evaluations on the effectiveness and the adequacy of the internal control measures on a regular basis.

Report of the Supervisory Committee

To the shareholders,

For the year ended 31 December 2006, the supervisory committee of Nanjing Sample Technology Company Limited, in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company, took an active role to work reasonably and cautiously with the principle of good faith and due diligence to protect the interest of the Company's shareholders.

During the year under review, the supervisory committee conducted careful review on the use of proceeds from placing in strict accordance with the plans of the use of proceeds disclosed in the Prospectus. It provided reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It also strictly and effectively supervised the Company's management in formulating significant policies and making decisions to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of the shareholders.

The supervisory committee have carefully reviewed the Company's financial report, audited by Deloitte Touche Tohmatsu, to be proposed by the Board and agreed that it truly and fully reflect the operating results and asset position of the Company. The supervisory committee have also reviewed the report of the directors and the dividend payment proposal. The supervisory committee are of the opinion that the members of the Board, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager, and senior management had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees, or in violation of any laws and regulations and the articles of association of the Company.

The supervisory committee is in recognition of the achievement and cost-effectiveness of the Company and has great confidence in the future development prospect of the Company.

On behalf of the Supervisory Committee
Tian Tao
Chairman

Nanjing, the PRC
24 April 2007

Independent Auditor's Report

Horwath

Horwath Hong Kong CPA Limited

Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
www.horwath.com.hk

TO THE MEMBERS OF **NANJING SAMPLE TECHNOLOGY COMPANY LIMITED**

(established and reorganized into a joint stock limited company in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Sample Technology Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 33 to 68, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

24 April 2007

Chan Kam Wing, Clement
Practicing Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	5	**131,614**	88,314
Cost of sales		**(62,322)**	(47,984)
Gross profit		**69,292**	40,330
Other income	5	**10,888**	10,052
Distribution costs		**(7,571)**	(7,603)
Administrative expenses		**(12,263)**	(15,207)
Finance costs	7	**(2,474)**	(2,516)
Gain on disposal of a subsidiary	30	**988**	—
Profit before taxation		**58,860**	25,056
Income tax expense	8	**(8,267)**	(3,872)
Profit for the year	9	**50,593**	21,184
Attributable to:			
Equity holders of the parent		**50,043**	21,102
Minority interests		**550**	82
		50,593	21,184
Earnings per share			
— Basic (RMB) cents	14	**77.59**	32.72

Consolidated Balance Sheet

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**57,896**	60,892
Prepaid lease payments	16	**6,869**	7,019
Goodwill	17	**—**	271
Other intangible assets	18	**—**	—
Convertible note receivable	19	**1,000**	—
Deferred tax assets	29	**891**	1,136
		66,656	69,318
Current assets			
Inventories	21	**3,280**	2,493
Trade and other receivables	22	**92,294**	33,499
Prepaid lease payments	16	**150**	150
Amounts due from customers for contract works	23	**31,127**	26,601
Restricted bank deposits		**361**	1,207
Bank balances and cash		**121,013**	140,265
		248,225	204,215
Current liabilities			
Trade and other payables	24	**29,135**	27,679
Construction cost payables		**1,978**	13,212
Tax liabilities		**6,780**	2,162
Short-term bank loans	25	**46,000**	36,000
Long-term bank loans due within one year	25	**—**	10,000
		83,893	89,053
Net current assets		**164,332**	115,162
Net assets		**230,988**	184,480
EQUITY			
Share capital	26	**64,500**	64,500
Reserves		**165,166**	115,123
Equity attributable to equity holders of the parent		**229,666**	179,623
Minority interests		**1,322**	4,857
Total equity		**230,988**	184,480

These financial statements on pages 33 to 68 were approved and authorised for issue by the Board of Directors on 24 April 2007 and are signed on its behalf by:

Sha Min
Director

Guo Ya Jun
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent							
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory welfare fund RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2005	64,500	52,641	6,010	3,005	38,815	164,971	4,775	169,746
Profit for the year	—	—	—	—	21,102	21,102	82	21,184
Profit appropriation	—	—	1,903	951	(2,854)	—	—	—
Dividends paid	—	—	—	—	(6,450)	(6,450)	—	(6,450)
At 31 December 2005	64,500	52,641	7,913	3,956	50,613	179,623	4,857	184,480
Profit for the year	—	—	—	—	50,043	50,043	550	50,593
Disposal of a subsidiary	—	—	—	—	—	—	(4,085)	(4,085)
Transfer on disposal of a subsidiary	—	—	(152)	(76)	228	—	—	—
Profit appropriation	—	—	5,960	—	(5,960)	—	—	—
Transfer to statutory surplus reserve	—	—	3,880	(3,880)	—	—	—	—
At 31 December 2006	64,500	52,641	17,601	—	94,924	229,666	1,322	230,988

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**58,860**	25,056
Adjustment for:			
Finance costs		**2,474**	2,516
Interest income		**(2,249)**	(1,157)
Depreciation of property, plant and equipment		**3,521**	5,195
Operating lease rentals in respect of land use rights		**150**	150
Gains on disposal of property, plant and equipment		**—**	(4)
Gain on disposal of a subsidiary		**(988)**	—
Allowance for inventories		**302**	783
Operating cash flows before movements in working capital		**62,070**	32,539
Increase in inventories		**(3,382)**	(1,514)
Increase in amounts due from customers for contract work		**(4,526)**	(20,334)
Increase in trade and other receivables		**(58,506)**	(545)
(Decrease)/Increase in trade and other payables		**(4,192)**	1,343
Cash (used in)/generated from operations		**(8,536)**	11,489
PRC enterprise income tax paid		**(6,549)**	(3,309)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(15,085)**	8,180

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
INVESTING ACTIVITIES			
Disposal of a subsidiary	30	**(2,979)**	—
Acquisition of convertible note receivable		**(1,000)**	—
Interest received		**2,249**	2,922
Proceeds from disposal of property, plant and equipment		**—**	6
Payments to acquire property, plant and equipment		**(809)**	(5,971)
Refund from contractors on adjustments on cost of property, plant and equipment		**—**	2,569
Decrease in restricted bank deposits		**846**	745
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(1,693)**	271
FINANCING ACTIVITIES			
Dividends paid		**—**	(6,450)
Interest paid		**(2,474)**	(2,516)
Repayment of bank loans		**(46,000)**	(35,000)
New bank loans raised		**46,000**	36,000
NET CASH USED IN FINANCING ACTIVITIES		**(2,474)**	(7,966)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(19,252)**	485
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**140,265**	139,780
CASH AND CASH EQUIVALENTS AT END OF YEAR		**121,013**	140,265
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**121,013**	140,265

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2006

1. ORGANISATION AND OPERATIONS

南京三宝科技股份有限公司 (Nanjing Sample Technology Company Limited) (the "Company") was established in the Mainland China (the "PRC") and was approved to be reorganised into a joint stock limited company on 28 December 2000. It is principally engaged in the provision of video security system solutions, sales of security system software and sales of related computer products. The addresses of the registered office and principal place of business of the Company are disclosed as the "Corporation Information" section to the annual report.

The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong limited ("Stock Exchange") on 9 June 2004.

The books and records of the company and its subsidiaries (hereinafter collectively referred to as the "Group") are maintained in Renminbi ("RMB"), the functional currency in which the majority of the Group's transactions is denominated.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong with the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM.

In the current year, the Group has adopted all of the new and revised HKFRSs that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current or prior years.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance (continued)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) – Int 12	Service Concession Arrangements	1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interest in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss account.

(d) Subsidiary

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

(e) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is presented separately.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gain or loss on the disposal of a subsidiary includes the carrying amount of goodwill relating to the subsidiary.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Property, plant and equipment

Construction in progress is stated at cost which includes all construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such projects. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The expected useful lives of the assets are as follows:

Buildings	30 years
Furniture, fixtures and equipment	5–10 years
Motor vehicles	5 years
Leasehold improvements	5–10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

(g) Leasehold land

When the leasehold land are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term.

(h) Intangible assets

On initial recognition, intangible assets acquired separately are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimate useful lives.

Gains or losses arising from derecognising of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Intangible assets (continued)

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

When no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss account in the period in which it is incurred.

(i) Impairment of assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Installation contracts

When the outcome of a contract for the installation of network systems can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred

When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

(l) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit and loss account.

i) Financial assets

The Group's financial assets are included one category, loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Financial instruments (continued)

i) Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans an receivables (including trade and other receivables, and amounts due from customers for contract work are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit and loss account when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interesting the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank loans, trade and other payables, construction cost payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(m) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit and loss account on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Taxation (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(p) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit and loss account in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

(q) Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense. Where the government grant exceed the expenses incurred and there is no further obligation attached to the government grant, the excess of the government grant over the related expense is recognised as "other income" immediately.

(r) Retirement benefit cost

Retirement benefit cost, which represents the amount payable in accordance with the regulation promulgated by the local PRC government, is charged to the income statement as incurred.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(t) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Revenue recognition

Revenue is measured at the fair of consideration received or receivable.

When the outcome of a contract for the installation of network systems can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Sales of goods are recognised when goods are delivered and title has passed while service income is recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the deposits to their net carrying amounts.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Impairment of trade and other receivable

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash generating unit to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank loans, trade and other receivables, amounts due from customers for contract works, trade and other payables, construction cost payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Interest bearing financial assets are mainly bank balances which are all short-term in nature. Interest bearing financial liabilities are mainly short-term bank loans with fixed interest rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Credit risk

The Group's credit risk primarily relates to the Group's trade and other receivables, amounts due from customers for contract works. In order to minimize the risk, the management of the Group closely monitors overdue debts. The recoverable amount of each individual debt is reviewed at each balance sheet date and adequate impairment for doubtful debts have been made for irrecoverable amounts. In this regard, the directors of the Group consider that credit risk associated with the Group's trade and other receivables and amounts due from customers for contract works is significantly reduced.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group carries out majority of its transactions in RMB and accordingly, the Group is not exposed to any significant foreign currency risk.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

5. TURNOVER AND REVENUE

An analysis of the Group's turnover and revenue for the year is analysed as follows:

	2006 RMB'000	2005 RMB'000
Provision of video security system solutions	**90,041**	77,940
Sales of security system software	**32,519**	9,214
Sales of related computer products	**9,890**	1,655
	132,450	88,809
Less: Business tax and other related taxes	**(836)**	(495)
Turnover	**131,614**	88,314
PRC value added tax refunded	**7,527**	2,902
Interest income	**2,249**	1,156
Sales of other software system	**—**	5,250
Subsidy income	**—**	300
Others	**1,112**	444
Other revenue	**10,888**	10,052
	142,502	98,366

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from provision of security system business. Accordingly, no detailed analysis of the Group's business segments are disclosed.

Geographical segments

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

7. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within five years	**2,474**	2,516

8. INCOME TAX EXPENSE

	2006 RMB'000	2005 RMB'000
The charge comprises:		
PRC income tax	**8,825**	4,165
Deferred taxation credit (note 29)	**(558)**	(293)
	8,267	3,872

PRC income tax is calculated at the rates prevailing under the relevant laws and regulations in the PRC.

The Company is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%.

The Company's subsidiaries are subject to PRC income tax rate of 33%, except Nanjing Samples Logistic Company Limited, being a qualified PRC softward enterprise, which is entitled to exemption from PRC income tax for two years commencing from its first profit-making year of operating and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years (the "Tax Relief"). This subsidiary was entitled to the 50% relief in 2005 and 2006.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2006		2005	
	RMB'000	%	RMB'000	%
Profit before tax	**58,860**		25,056	
Tax at the domestic income tax rate of 15%	**8,829**	**15.0**	3,758	15.0
Tax effect of expenses not deductible for tax purpose	**382**	**0.6**	535	2.1
Tax effect of income not taxable for tax purpose	**(1,190)**	**(2.0)**	(480)	(1.9)
Effect of the different tax rates of subsidiaries	**388**	**0.7**	59	0.2
Others	**(142)**	**(0.3)**	—	—
Tax charge and effective tax rate for the year	**8,267**	**14.0**	3,872	15.4

9. PROFIT FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	**480**	520
Staff costs including directors' emoluments	**7,195**	7,854
Retirement benefits scheme contributions	**528**	344
	7,723	8,198
Less: Staff costs included in research and development costs	**(950)**	(1,827)
	6,773	6,371
Research and development costs	**3,384**	4,373
Less: Government grants received	**(1,575)**	(1,259)
	1,809	3,114
Depreciation of property, plant and equipment	**3,521**	5,195
Allowance for inventories	**302**	783
Cost of inventories recognised as expenses	**41,146**	35,696
Operating lease rentals in respect of buildings	**166**	155
Operating lease rentals in respect of land use rights	**150**	150
And after crediting:		
Interest income	**2,249**	1,157
Gain on disposal of property, plant and equipment	**—**	4
Exchange gains	**22**	—

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the Company's Directors were as follows:

	2006				2005			
		Other emoluments				Other emoluments		
	Fees RMB'000	Salaries and other benefits RMB'000	Contributions retirement benefits/ pensions schemes RMB'000	Total RMB'000	Fees RMB'000	Salaries and other benefits RMB'000	Contributions retirement benefits/ pensions schemes RMB'000	Total RMB'000
Executive directors								
Mr. Sha Min	20	161	9	190	17	141	7	165
Mr. Chang Yong	20	141	9	170	17	128	7	152
Mr. Guo Ya Jun	20	127	9	156	17	114	7	138
Sub-total	60	429	27	516	51	383	21	455
Non-executive directors								
Mr. Zhao Jing Chen	10	—	—	10	10	—	—	10
Mr. Zhang Yin Qian	10	—	—	10	10	—	—	10
Mr. Guo Shi Ping	10	—	—	10	10	—	—	10
Mr. Zhu De Xiang	10	—	—	10	10	—	—	10
Sub-total	40	—	—	40	40	—	—	40
Independent non-executive directors								
Mr. Zhang Zhan	10	—	—	10	20	—	—	20
Mr. Wang Wei	10	—	—	10	10	—	—	10
Mr. Lau Shek Yau, John	62	—	—	62	62	—	—	62
Sub-total	82	—	—	82	92	—	—	92
Total	182	429	27	638	183	383	21	587

The emoluments of each of the Directors for both years were below HK$1,000,000 (equivalent to RMB1,000,000).

11. EMPLOYEE'S EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining two (2005: two) individuals were as follows:

	2006 RMB'000	2005 RMB'000
Salaries and other benefits	**222**	210
Contributions to retirement benefits scheme	**9**	—
	231	210

Their emoluments were within the following bands:

	2006 No. of employees	2005 No. of employees
Nil to HK$1,000,000 (Nil to RMB1,000,000)	**2**	2

During the years, no emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

12. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders includes a profit of RMB40,137,000 (2005: RMB19,164,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

No final dividend for the year ended 31 December 2006 has been proposed by the directors.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year attributable to the equity holders of the parent of RMB50,043,000 (2005: RMB21,102,000) and 64,500,000 (2005: 64,500,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential dilutive ordinary shares outstanding for the two years ended 31 December 2006.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture fixtures and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
The Group						
COST						
At 1 January 2005	20,971	16,525	2,652	16,109	6,761	63,018
Adjustments (note (a))	—	(1,601)	—	(968)	—	(2,569)
Additions	—	150	—	—	10,480	10,630
Transfers	6,538	58	1,370	—	(7,966)	—
Disposals	—	(3)	(89)	—	—	(92)
At 31 December 2005	27,509	15,129	3,933	15,141	9,275	70,987
Adjustments (note(b))	—	—	—	—	(194)	(194)
Additions	—	377	432	—	—	809
Transfers	5,489	436	—	3,156	(9,081)	—
Disposals	—	(1,004)	(850)	—	—	(1,854)
At 31 December 2006	32,998	14,938	3,515	18,297	—	69,748
ACCUMULATED DEPRECIATION						
At 1 January 2005	249	2,485	1,566	690	—	4,990
Adjustments (note (a))	—	(40)	—	(48)	—	(88)
Provided for the year	806	2,099	364	2,014	—	5,283
Eliminated on disposal	—	(2)	(88)	—	—	(90)
At 31 December 2005	1,055	4,542	1,842	2,656	—	10,095
Provided for the year	1,295	1,184	476	566	—	3,521
Eliminated on disposal	—	(955)	(809)	—	—	(1,764)
At 31 December 2006	2,350	4,771	1,509	3,222	—	11,852
NET BOOK VALUE						
At 31 December 2006	30,648	10,167	2,006	15,075	—	57,896
At 31 December 2005	26,454	10,587	2,091	12,485	9,275	60,892

Note:

(a) During the year ended 31 December 2005, through negotiation with the contractors, the Group was able to reduce the contracted price of certain renovation works undertaken on the Group's principal place of business. Accordingly such price reduction was refunded to the Group and was recorded as adjustments in the previous year.

(b) Adjustments represent reversal of over provision for construction costs in prior years.

(c) The Group's buildings are situated in the PRC and held under medium-term land use rights.

16. PREPAID LEASE PAYMENTS

Prepaid lease payments comprise:

	2006 RMB'000	2005 RMB'000
The Group		
Leasehold land in the PRC:		
— Medium term lease	**7,019**	7,169
Analysed for reporting purposes as:		
— Current asset	**150**	150
— Non-current asset	**6,869**	7,019
	7,019	7,169

17. GOODWILL

	2006 RMB'000	2005 RMB'000
The Group		
Carrying value		
At 1 January	**271**	271
Disposal of a subsidiary (note 30)	**(271)**	—
At 31 December	**—**	271

During the year, the Group disposed of its subsidiary, Nanjing Sample Information System Engineering Company Limited. The attributable goodwill was included in the calculation of gain on disposal of a subsidiary.

18. OTHER INTANGIBLE ASSETS

	Technical know-how RMB'000
COST	
At 1 January 2005 and 31 December 2005	8,000
Disposal of a subsidiary	(7,000)
At 31 December 2006	1,000
AMORTISATION	
At 1 January 2005 and 31 December 2005	8,000
Disposal of a subsidiary	(7,000)
At 31 December 2006	1,000
CARRYING VALUE	
At 31 December 2006	—
At 31 December 2005	—

19. CONVERTIBLE NOTE RECEIVABLE

	2006 RMB'000	2005 RMB'000
The Group		
Unlisted convertible note	**1,000**	—

During the year, the Group subscribed a convertible note of RMB1,000,000 issued by an independent third party (the "Issuer"). The directors of the Company have confirmed that the issuer is not related to the Group or any of the Company's directors or substantial shareholders.

The note is secured by the 51% of equity interest in the Issuer, bearing interest at 15% per annum and repayable by 9 February 2008. The note is convertible into 1,000,000 ordinary shares of the issuer at an initial conversion price of RMB1 per share. The note is stated at amortised cost.

The directors of the Company consider that the fair value of the option element to convert these notes into equity holding is insignificant and therefore not separated from the receivable.

20. SUBSIDIARIES

Details of the Company's subsidiaries are as follows

Name of subsidiary	Date of establishment	Place of operations	Issued and fully paid capital/ registered capital '000	Attributable equity interest held directly by the Company	Principal activities
南京三寶物流科技有限公司 (Nanjing Sample Logistic Company Limited) (Formerly known as 南京金龍軟件有限公司 Nanjing Golden Dragon Software Company Limited)	11 March 2000	PRC	RMB6,000	95%	Provision of video security system solutions
南京三寶射頻技術研究有限公司 (Nanjing Sample RFID Technology Research Company Limited)	8 December 2006	PRC	RMB6,000	100%	Not yet commenced business
Sample Technology (H.K.) Co., Limited	7 December 2006	Hong Kong	HK$78	100%	Not yet commenced business

21. INVENTORIES

	2006 RMB'000	2005 RMB'000
The Group		
Computer hardware products, equipment and software products	**3,280**	2,493

22. TRADE AND OTHER RECEIVABLES

	2006	2005
	RMB'000	RMB'000
The Group		
Trade receivables from third parties	**73,066**	27,488
Trade receivables from a related party *(note 33(b))*	**—**	600
Other receivables	**5,079**	3,358
Prepayments to suppliers	**15,357**	2,669
	93,502	34,115
Less: Provision	**(1,208)**	(616)
	92,294	33,499

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance, except for certain well-established customers. The following is an aged analysis of trade receivables net of impairment losses of RMB1,187,000 (2005: RMB426,000) at 31 December 2006.

	2006	2005
	RMB'000	RMB'000
The Group		
Aged:		
0–90 days	**49,905**	14,882
91–180 days	**2,195**	3,339
181–365 days	**7,517**	8,610
1–2 years	**12,262**	831
	71,879	27,662

The fair value of the Group's trade and other receivables at the balance sheet date, determined based on the present value of the estimated cash flows discounted at the prevailing market rate at the balance sheet date, approximates to their corresponding carrying amounts.

23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2006 RMB'000	2005 RMB'000
The Group		
Contract costs incurred to date	**65,590**	96,520
Recognised profits less recognised losses	**35,068**	58,753
	100,658	155,273
Less: Provision	**(69,531)**	(128,672)
	31,127	26,601

At 31 December 2006, included in amounts due from customers for contract works were RMB258,000 (2005: RMB212,000) in relation to Nanjing Wuzhou Refrigeration Co., Ltd. ("Nanjing Wuzhou"), a related company as explained in note 33.

24. TRADE AND OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
The Group		
Trade payables	**14,899**	17,720
Other payables	**14,236**	9,959
	29,135	27,679

The following is an aged analysis of trade payables at the balance sheet date:

	2006 RMB'000	2005 RMB'000
The Group		
Aged:		
0–90 days	**7,078**	10,704
91–180 days	**3,973**	2,838
181–365 days	**2,042**	2,245
1–2 years	**731**	1,565
Over 2 years	**1,075**	368
	14,899	17,720

25. BANK LOANS

	2006 RMB'000	2005 RMB'000
The Group		
Short-term bank loans		
— Unsecured bank loans	**46,000**	36,000

The bank loans as at 31 December 2006 are unsecured and repayable within one year with interest charged at 6.12% (2005: 5.31% – 5.58%) per annum. The fair value of the above bank loans estimated by discounting their future cash flows at the prevailing market borrowing rates at 31 December 2006 approximates to the corresponding carrying amount.

	2006 RMB'000	2005 RMB'000
The Group		
Long-term bank loans		
— Repayable within on year	—	10,000

The bank loans were unsecured, carried interest at 5.49% per annum and repaid in full in June 2006.

26. SHARE CAPITAL

	Number of shares			Amount		
	Domestic shares	H shares	Total	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid, with par value of RMB0.1 each:						
At 1 January 2005, 31 December 2005 and 2006	44,100,000	20,400,000	64,500,000	44,100	20,400	64,500

26. SHARE CAPITAL (CONTINUED)

Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

27. SHARE BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 24 April 2004 (the "Share Option Scheme"), the company may grant options to any full-time employees, directors (including non-executive directors and independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above of the Group and any advisor (professional or otherwise) or professional consultant, distributors, suppliers, agents, customers joint venture partners, service providers which, in the opinion of the Company's board of directors (the "Board"), has or had made contribution to the Group the option to subscribe for the H shares in the Company for a consideration of HK$1 for each lot of share options granted.

The Share Option Scheme will remain valid for a period of ten years commencing on 24 April 2004. Option granted are exercisable at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised from the date of grant of the option to not more than ten years form the date of grant of the option.

The subscription price for H shares under the Share Option Scheme will not be less than the higher of (i) the closing price of the H shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the H shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a H share.

However, for the participants who are PRC nationals or enterprises established in the PRC and have taken up any options to subscribe for H shares, they shall not be entitled to exercises the options until:

(i) The current restriction imposed by the relevant PRC laws and regulations restricting PRC nationals or enterprises established in the PRC from subscribing for and dealing in H shares or any law and regulations with similar effects have been abolished or diminished; and

(ii) The China Securities Regulatory Commission or other relevant government authorities in the PRC have approved the issue of new H shares upon the exercise of any options which may be granted under the Share Option Scheme.

No options have been granted by the Company under the Share Option Scheme since its adoption.

28. RESERVES

As stipulated by the relevant laws and regulations in the PRC, the Company and its subsidiaries are required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered capital).

According to the Articles Of Association of the Company and its subsidiaries, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of registered capital of the company or its subsidiaries; or (iii) expand production operation.

In prior years, the Company and its subsidiaries are required by the relevant laws and regulations in the PRC to set aside 5% to 10% of its profit after taxation for the statutory welfare fund which is to be used for the welfare of the staff and workers of the Company. According to the amendment on relevant financial regulations in the PRC, the Company and its subsidiaries are no longer required by law to appropriate their annual statutory net profit to the statutory public welfare fund with effect from 1 January 2006. The balance of statutory public welfare fund at 31 December 2005 was transferred to statutory reserve.

In accordance with the Company's Articles of Association, the profit after taxation for the purpose of appropriation will be deemed to be the lesser of the amounts determined accordance with (i) PRC accounting standards and regulations and (ii) either International Financial Reporting Standards or overseas accounting standards of the place in which the company's shares are listed.

29. DEFERRED TAX ASSETS

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during the year:

	Depreciation of property, plant and equipment RMB'000	Amortisation of technical know-how RMB'000	Pre-operating expenses RMB'000	Impairment loss on trade and other receivables RMB'000	Impairment loss on inventories RMB'000	Accrued expenses RMB'000	Total RMB'000
The Group							
At 1 January 2005	—	613	44	93	93	—	843
Credit/(charge) to income statement for the year (note 8)	—	(120)	(35)	—	117	331	293
At 31 December 2005	—	493	9	93	210	331	1,136
Credit/(charge) to income statement for the year (note 8)	575	296	(9)	(158)	46	(192)	558
Disposal of a subsidiary	(19)	(770)	—	—	—	(14)	(803)
At 31 December 2006	556	19	—	(65)	256	125	891

30. DISPOSAL OF A SUBSIDIARY

In November 2006, the Group disposed of its entire 80% equity interests in Nanjing Sample Information System Engineering Company Limited for a consideration of RMB17,600,000.

The net assets of Nanjing Sample Information System Engineering Company Limited at the date of disposal and at 31 December 2005 were as follows:

	At the date of disposal RMB'000	As at 31/12/2005 RMB'000
Net assets disposed of:		
Property, plant and equipment	**90**	66
Deferred tax assets (note 29)	**803**	489
Inventories	**2,293**	—
Trade and other receivables	**295**	19,681
Bank and cash balances	**20,579**	2,088
Trade and other payables	**(3,410)**	(2,324)
Tax payables	**(224)**	(67)
	20,426	19,933
Minority interests	**(4,085)**	(3,966)
	16,341	15,967
Attributable goodwill	**271**	271
	16,612	16,238
Gain on disposal	**988**	
Total consideration, satisfied by cash	**17,600**	
Net cash inflow arising on disposal:		
Cash consideration	**17,600**	
Bank balances and cash of subsidiary disposed of	**(20,579)**	
	(2,979)	

Nanjing Sample Information System Engineering Company Limited contributed RMB9,888,000 of revenue and $178,000 of net profit to the Group's results for the current year.

During the period, Nanjing Sample Information System Engineering Company Limited contributed $18,318,000 and RMB174,000 to the Group's net operating and investing cash flows respectively and utilised RMB1,000 on financing activities.

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	2006	2005
	RMB'000	RMB'000
The Group		
Within on year	**31**	16

32. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirements scheme is to make the required contributions under the scheme.

The total cost charged to income of RMB528,000 (2005: RMB344,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. All the contributions had been paid over to the scheme as at 31 December 2006.

33. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

(a) During the year, the Group has the following significant transactions with related companies:

	2006	2005
	RMB'000	RMB'000
Nanjing Wuzhou (a company with a common director)		
Provision of video security system solutions	**—**	1,155

The transaction was carried out on terms mutually agreed between the Group and the related company.

(b) At the balance sheet, the Group has trade receivable from a related party as follows:

	2006	2005
	RMB'000	RMB'000
Nanjing Wuzhou	**—**	600

The amount is unsecured, interest free and repayable within one year.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) The Company and its controlling shareholder and substantial shareholder, Nanjing Sample Technology Group Company Limited ("Sample Group") entered into licence agreement on 1 January 2001 pursuant to which Sample Group agreed to grant a licence to the company for the use of the trademarks "Sample" and "神保" at nil consideration with effect from 1 January 2001. Pursuant to a supplemental agreement to the licence agreement dated 2 April 2004 ("Supplemental Agreement"), Sample Group irrevocably agreed to grant a licence to the Company for (i) the use of the trademark "Sample" and (ii) the exclusive use of the trademark "神保" in connection with the services included in class 42 , which includes computer rental, computer programming, computer software design, updating of computer software, rental of computer software, consultancy in the field of computer hardware, leasing access time to computer database, at nil consideration. The licence period for (i) commences retrospectively on 1 January 2001 until 31 July 2008 whilst the licence period for (ii) commences retrospectively on 1 January 2001 until the earlier of (a) 31 July 2008; and (b) the date when the necessary procedures for the transfer of the trademark have been completed pursuant to the exercise of the option under the trademark option agreement dated 1 August 2003. Under the Supplemental Agreement, Sample Group retains the right to use the trademark " Sample" in connection with services included in class 42 and the Company was granted a pre-emptive right to acquire the trademark "Sample" and "神保" should Sample Group intend to transfer the same to third parties under the same terms and conditions after the expiry of the Supplementary Agreement.

In addition, the Company and Sample Group entered into a trademark option agreement dated 1 August 2003 pursuant to which an option was granted to the Company by Sample Group exercisable from the date of the trademark option agreement to 31 July 2008 ("Option Period") During the Option Period, the Company may, by written notice, request Sample Group to transfer the trademark "神保" to the Company at nil consideration.

(d) At the balance sheet date, certain of the Group's short-term bank loans are secured by guarantees given by related companies:

	2006	2005
	RMB'000	RMB'000
Guarantees given by Sample Group	**46,000**	36,000

(e) The remuneration of directors as disclosed in note 10 and other members of key management as disclosed in note 11 during the year was as follows:

	2006	2005
	RMB'000	RMB'000
Salaries and other benefits	**833**	776
Contribution to retirement benefits/pension schemes	**36**	21
	869	797

34. SUBSEQUENT EVENT

(a) On 18 January 2007, the Company entered into a joint venture agreement with an independent third party for establishment of a joint venture company whereby the Company will contribute RMB4.2 million to the joint venture company as 60% of registered capital.

(b) On 9 April 2007, the Company's subsidiary, Nanjing Sample RFID Technology Company Limited ("Sample RFID") entered into an assignment agreement with Sample Group in which Sample RFID agreed to acquire all assets necessary for the operation of a RFID technology research and exhibition centre owned by Sample Group at a cash consideration of RMB3,250,000. The centre was originally jointly established and operated by Sample Group and an independent third party ("Independent Third Party"). The Company is advised by Sample Group that Sample Group has terminated the joint operation with Independent Third Party with effect from 1 January 2007.

Upon signing the assignment agreement, Sample FRID also entered into a co-operation agreement with the Independent Third Party for the joint operation of this centre

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Annual General Meeting") of Nanjing Sample Technology Company Limited (the "Company") will be held at No.10 Maqun Avenue, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC on Friday, 15 June 2007 at 9:00 a.m. for the following purposes:

I. To consider and, if thought fit, pass the following ordinary resolutions:

(1) To consider and approve the report of the directors of the Company for 2006;

(2) To consider and approve the report of the supervisory committee of the Company for 2006;

(3) To consider and approve the audited consolidated financial statements of the Group for 2006;

(4) To consider and approve the distribution of final dividend for 2006;

(5) To consider and approve the proposal for appointment of Horwath Hong Kong CPA Limited as the Company's auditors for the year ending 2007 and authorization of the Board to determine their remuneration;

(6) To consider and approve the resolution for making appropriation to statutory reserve fund for 2006; and

(7) To re-select retiring directors and supervisors and to authorize the Board to fix their remuneration for 2007.

II. To consider and, thought fit, pass with or without amendment, the special resolutions in respect of the general mandate to issue additional new shares by the Board:

"That:

(a) conditional on paragraphs (c), (d) and (e) below, the exercise by the Board of the Company during the Relevant Period (as defined in paragraph (f)) of all powers of the Company to severally or jointly allot, issue and deal with the domestic shares in the capital of the Company and/or the overseas-listed foreign shares (H shares) in the capital of the Company be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorize the Board to make or grant offers, agreements or options during the Relevant Period which would or might require the allotment and issue of domestic shares and/H shares during or after the end of the Relevant Period;

(c) the aggregate nominal amount of the domestic shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approvals in paragraphs (a) and (b) above, shall not exceed 20% of the aggregate nominal amount of the domestic shares in issue as at the date of the passing of this resolution;

(d) the aggregate nominal amount of the H shares allotted and issued or agreed to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approvals in paragraphs (a) and (b) above, shall not exceed 20% of the aggregate nominal amount of the H shares in issue as at the date of the passing of this resolution;

(e) the approval in paragraph (a) above shall be exercised pursuant to the Company Law of the PRC and shall be subject to the approval of China Securities Regulatory Commission and/or other relevant authorities of the PRC and/or Growth Enterprise Market of the Stock Exchange of Hong Kong Limited;

(f) for the purpose of this special resolution:

"Relevant Period" means the period from the date of this special resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company after the passing of this resolution;

(ii) the expiration of the twelve-month period after the passing of this special resolution;

(iii) the date on which the authority sets out in this resolution is revoked or varied by the members of the Company by a special resolution in general meeting.

By Order of the Board
Nanjing Sample Technology Company Limited*
Sha Min
Chairman

Nanjing, the PRC
24 April 2007

* *for identification purpose only*